



## **Office of the City Auditor**

### **Business Meals and Same Day Training Audit Report No. 0403**

April 19, 2004

Adequate internal controls appear to be in place to provide reasonable assurance that expenditures related to food and beverages for meetings and same day training will be appropriately recorded, supported by documentation, and procured in compliance with established guidelines. Providing additional training to staff that are issued Procurement Cards would enhance the control environment.

#### **CITY COUNCIL**

Mayor  
Mary Manross

Council  
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David Ortega  
Roberta Pilcher  
Tom Silverman

April 19, 2004

To the Most Honorable Mary Manross, Mayor  
and Members of the Scottsdale City Council

Transmitted herewith is a report on expenditures related to Business Meals and Same Day Training. Staff in Financial Services was very cooperative during our audit and we would like to thank them for their assistance.

If you need additional information or have any questions, please contact me at 480-312-7756.

Respectfully submitted,

A handwritten signature in cursive script that reads "Cheryl Lee Barcala".

Cheryl Barcala, CPA, CIA, CFE, CGFM, CISA, CISSP  
City Auditor

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## EXECUTIVE SUMMARY

An audit of Business Meal Expenditures was included on the Audit Plan for 2002/2003. The work was undertaken to determine if controls are sufficient to ensure that expenditures are reflected in the correct account, supported by adequate documentation, and made in compliance with guidance outlined in Administrative Regulations (ARs).

When this audit was initially planned, the scope was limited to expenditures related to business meals. However, current practice is to reflect expenditures related to business meals as well as same day training within the same account (52245). Therefore, the scope was expanded to include both categories of expenditures.

It is especially important to be prudent in the expenditure of public funds for business meals and same day training purposes. Expenditures of this nature are often seen as employee perks, open to criticism that the expenditure was not a necessary component of carrying out job duties. In recognizing the need for additional oversight, staff in the Financial Services Department developed two ARs: *Business Meeting Expenditures* (AR 205) and *Conference, Certification, and Training Expenditures* (AR 209) to provide the framework as to when it is appropriate to use City funds.

To complete this audit, we randomly selected a sample of expenditures posted to account 52245 and from Procurement Card transactions appearing to fall within the categories for food and training. From this sample, we found that business meal related expenditures generally included appropriate documentation, signatures, and approvals; same day training related expenditures were supported with appropriate documentation; and there was reasonable assurance that expenditures would be recorded appropriately.

Items that came to our attention and were discussed with management included:

- Of thirty-eight transactions posted to the account for Business Meals and Same Day Training, there were two instances in which employees did not process Request for Adjustments to move expenditures into the correct accounts. As a result, the Business Meal and Same Day Training account reflected \$1,800 in expenditures that should have been posted to the office supplies account.

- Of twenty-seven Procurement Card transactions that should have been posted to the account for local training, there were three instances in which a Request for Adjustment was not made to move the expenditure into the Business Meal and Same Day Training account. All three were traced to one specific instance in which an adjustment was not processed.
- Of fifty-nine specific instances of business meal or food/beverage purchases, there were:
  - Two situations in which meals were purchased off-site at a restaurant and supporting documentation was not available. In both cases there was no purpose noted, no list of attendees, and the detailed receipts were not submitted (\$21.27 and \$20.79).
  - Multiple events in which food was provided for routine or re-occurring staff functions:
    - Planning and Development Weekly Director's Meeting (\$59.27).
    - Police Department Quarterly Meeting (\$2,490).
    - DMB Core Team Meeting (\$69.43).
    - Stack 40 Meeting (\$131.24 and \$18.07).
    - Process Improvement Team Meeting (\$12).
    - Wireless Messaging Team Meeting (\$27.84).
    - Promotional Process Assessors Meeting (\$58.03).
  - Multiple events in which food was provided but detailed receipts were not submitted:
    - Lunch for the Adopt-a-Family volunteers (\$103.39).
    - Two Housing Board Meetings and a Neighborhood Enhancement Commission Meeting (\$13.91, \$30.16, and \$30.16 respectively).
    - Dinner for the Planning Commission and staff prior to a meeting (\$136.16).
    - Dinner for the Development Review Board and staff prior to a meeting (\$133.36).
    - Lunch for the Transportation General Manager and Traffic Engineering Director candidate (\$32.73).

We noted three situations in which clarification or modifications to instructions would result in more consistency in the treatment of transactions:

1. The current AR for training, AR 209, "Conference, Certification, and Training Expenditures," requires verbal approval before attending training. For situations that require out of town travel, an Employee Request for Training and/or Travel Form must be completed and would, therefore, be available to document the approval. For local training this form is not required. As a result, there is no mechanism to document, on a consistent basis, the approvals granted for local training.
2. A form used by Risk Management for the Safety Incentive Program states that the limit, per person, for meals and beverages is \$9. This conflicts with the AR on Business Meeting Expenditures which caps the per person amount at \$8 for meals and beverages.
3. Instructions to staff state that Request for Adjustments are to be made in a "timely manner." To some staff, "in a timely manner" means monthly while to others it means once a year (i.e., before the end of the fiscal year). As a result, there is no consistency as to when an adjustment might be reflected. It also creates a situation in which future events, such as a departure of staff, may impact adjustments being missed.

## ACTION PLAN

No.	Recommendations and Management Response
	The Financial Services General Manager should direct the appropriate party (Accounting Director or Purchasing Director) to:
1	Review all Procurement Cards that are currently set to default into account 52245 and verify that this expenditure category most appropriately reflects the majority of purchases made by the cardholders.
	<p><b>Management Response:</b> We concur. The City has 7 cardholders who are currently set up to default to account 52245 (Same day training and business meals.) In all but two instances, the majority of expenditures are for business meals and same day training. Purchasing staff contacted the two cardholders whose charges did not properly fit into that account category and requested they fill out a maintenance form to change the cost default. Staff will follow-up with the cardholders to ensure the changes were made.</p> <p><b>Responsible Party:</b> Purchasing Division                      <b>Completed By:</b> 4/07/04</p>
2	Develop a training-refresher course that can be offered to Procurement Cardholders to reinforce the need for Request for Adjustments to be made if the expenditure does not fall within the correct account used as the default when processing the payment to the credit card vendor.
	<p><b>Management Response:</b> We concur. Training will be developed by purchasing and accounting staff and will be presented after the implementation of the new American Express purchasing card.</p> <p><b>Responsible Party:</b> Purchasing and Accounting Divisions                      <b>Completed By:</b> 10/31/04</p>
3	Modify AR 209 to require submittal of an Employee Training and/or Travel Request Form to provide consistent documentation for expenditures and provide written evidence of management approval.
	<p><b>Management Response:</b> The Administrative Regulation was modified to recommend the use of the form for all training. However, due to cost/benefit constraints associated with brief or infrequent, same-day training sessions, or those offered at no cost to the City, the use of an "authorization form" will not be mandated as long as proper justification is attached to a request for payment.</p> <p><b>Responsible Party:</b> Accounting Division                      <b>Completed By:</b> 4/15/04</p>

No.	Recommendations and Management Response
4	<p>Modify the instructions for the Safety Incentive Program to bring the per person amount in line with the limits set in the AR or modify the AR to increase the per person limit to the amount set for the Safety Incentive Program.</p> <p><b>Management Response:</b> Concur/completed. The administrative regulation No. 205 was modified to increase the per person amount for meals to the approved U.S. General Service Administration per diem for the Phoenix/Scottsdale area. The amount for lunch and dinner was also segregated based on the GSA policy.</p> <p><b>Responsible Party:</b> Accounting Division <b>Completed By:</b> 4/15/04</p>
5	<p>Develop a refresher-training course or other method of delivery that can be used to reinforce the need for detailed receipts to be submitted to support Procurement Card transactions.</p> <p><b>Management Response:</b> We concur. Purchasing staff sent out individual e-mails to cardholders who are missing detailed receipts requesting they provide an invoice with a detailed receipt. In most cases the cardholder can provide the invoice. In some cases (Greenbacks) the vendor does not provide detail receipts and in the past we have continued to let the cardholders purchase with the vendor as long as they provide a detailed explanation.</p> <p><b>Responsible Party:</b> Purchasing Division <b>Completed By:</b> 04/15/04</p>



## **BACKGROUND**

City funds can be used to cover the cost associated with a business meeting if the City sponsors the event or acts as host for a meeting. Funds can also be used to provide food, beverages, and supplies necessary for a citizen board, commission, or committee meeting. In limited situations, food, beverages, and supplies can be provided for staff functions.

City funds can also be used to provide job-related training, attend professional meetings (if membership is paid for by the City), and other learning opportunities that are mutually beneficial to the City of Scottsdale and the employee.

### **Established Policy and Procedures**

Two specific ARs have been developed to define the circumstances in which City funds can be used to pay for business meals and same day training expenses. AR 205, "Business Meeting Expenditures," addresses use of funds for food while AR 209, "Conference, Certification, and Training Expenditures," outlines the policy of using City time and public funds to attend professional conferences and training.

### **Business Meeting Expenditures**

City management has established a maximum per person amount of \$8, excluding tax, delivery, and tip, as a means of controlling the amount of funds that can be spent for food. The Policy prohibits the purchase of alcohol and the provision of food at routine business meetings. In order to comply with the Internal Revenue Service Accountable Plan, appropriate supporting documentation and detailed receipts are required to be submitted.

### **Same Day Training**

Training attended locally (i.e., there is no need for an overnight stay) is tracked separately from those situations that require overnight accommodations. The AR discourages attendance by more than one employee in a department to the same conference or training session. According to AR 209, employees are expected to return and prepare a white paper explaining the benefits; provide training to other employees; or apply the knowledge, skills, or abilities to a particular project or job responsibility.

Established procedures require advance approval, by management one level above the employee, prior to attending a local training or conference. While not required, the City has an "Employee Request for Training and/or Travel" Form that can be used to submit this request. The Form provides space for the employee to set out the benefit that the employee and department will derive and provides management with an estimate of the cost for the employee to attend the training or conference.

### **Processing Payments**

Payments for business meeting expenditures and same day training can be processed in various ways. Check Requisitions, Purchase Orders, or a City Procurement Card can be used and, if the expenditure will be less than \$50, a request for Petty Cash can be submitted. If necessary, the employee can pay for the meal or training and submit a request for reimbursement.

Purchasing can create a Purchase Order for a same day training vendor. However, Purchase Orders are not seen as the most cost effective means to request training. A requestor may choose to use this method if a training provider requires a Purchase Order prior to commencement of the training, a state contract is being used, or the cost of the session exceeds other payment options.

Accounts Payable processes Check Requisitions. During fiscal year (FY) 02/03, oversight included a requirement for management to respond affirmatively to a series of questions regarding the need for training and the expenditure of funds for business meetings. This additional level of oversight was eliminated at the end of FY 02/03 because management believed that staff was better educated on the restrictions put in place as part of budget reductions.

If a Procurement Card is used, it is the responsibility of the user to ensure that the expenditure is charged to the correct account. This can be accomplished by submitting a Request for Adjustment Form if another account is used as the default.<sup>1</sup> As part of the monthly reconciliation process, the Purchasing Technician, responsible for the Procurement Card Program, reviews each Procurement Card reconciliation packet. If a Card was used to pay for a business meal, the Purchasing Technician will look for the detailed receipt of items purchased, a list of individuals in attendance, the date, location, purpose of the meeting, and supervisory approval. If something is missing, the Purchasing Technician will follow-up with the cardholder.

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<sup>1</sup> Each Procurement Card is set to default to an account that most appropriately reflects the type of transactions made with the Card. In some situations, the default account may be an office supply account; in other situations, a different expenditure account may be used.

## Expenditures

To track business meal and same day training expenditures, the Financial Services Department has established a separate account (52245). For FY 02/03, approximately \$320,000 was expended out of \$899,266 budgeted within this account. The chart below provides information on total expenditures by department.<sup>2</sup>

### FY 02/03 for Account 52245

Department	Total
Citizens and Neighborhood Resources	\$17,680.67
Community Services	\$43,392.18
Economic Vitality	\$597.66
Financial Services	\$28,135.25
General Government	\$65,901.05
Human Resources	\$23,599.70
Information Systems	\$15,981.44
Municipal Services	\$27,811.95
Planning and Development	\$37,921.14
Police Department	\$34,227.05
Transportation	\$9,389.74
Water Resources	\$15,278.01

**SOURCE:** Audit analysis.

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<sup>2</sup> While it is expected that expenditures recorded within the 52245 account will meet the definition of business meals and same day training, there is a potential for other types of expenditures to be included in the totals presented above (i.e., when adjusting entries are not made to correct Procurement Card transactions that should be reflected elsewhere). Correspondingly, there is also a potential for these types of expenditures to be reflected in other accounts (if, for example, an error was made when recording the account to be charged). As such, the information is presented to provide a perspective into the amount reported as expended and not as an accurate reflection of what was actually spent.

## **Objective 1**

*Determine if controls are sufficient to ensure that expenditures related to business meals and same day training are reflected in the correct account for these expenditures.*

## **Finding**

Controls are sufficient to provide reasonable assurance that expenditures related to business meals and same day training are reflected in the correct account. Additional training of staff issued Procurement Cards, as well as those that process Check Requisitions and Petty Cash vouchers, would improve the control environment.

**Criteria:** Guidance should be available to provide direction to employees as to which account to charge expenditures related to business meals and same day training.

**Condition:** ARs for use of funds for business meals and same day training instruct staff as to the correct account to use when processing the transaction. The Financial Services Department provides account definitions within the Chart of Accounts<sup>3</sup> for use in determining the appropriate classification for expenditures. The Chart of Accounts is available on the City's Intranet. It defines account 52245, Same Day Training/Business Conferences, as follows:

This account is used to record the cost of expenses while on official City business locally. This account is also used for same-day business activity such as local professional organizations (where membership is paid by the City), business conference registration fees, staff retreats, business meetings (in accordance with the business meetings AR), food and meals for employees, and holiday or employee recognition events.

Within our original sample selection, there were 112 separate events related to business meals or same day training. Of these 112, we found 3 transactions that should have been reflected in the account for business meals or same day training but were not. These 3 expenditures could be traced to one situation in which a staff person failed to process a Request for Adjustment Form to move the expenditures into the correct account.

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<sup>3</sup> The Chart of Accounts is a reference manual that contains pertinent information regarding the use of accounting distributions (fund-center-account). It is to be used by staff when preparing Purchase and Check Requisitions, budget transfers, Request for Adjustments, deposits, departmental budgets, or any document where there is a need to complete an appropriate accounting distribution.

Of the 38 transactions selected from the 52245 account, 2 instances were found in which Request for Adjustments were not made to move unrelated transactions out of the Business Meal and Same Day Training account and post those transactions to the correct accounts.

**Recommendations:**

- Review all Procurement Cards that are currently set to default into account 52245 and verify that this expenditure category most appropriately reflects the majority of purchases made by the cardholders.
- Develop a training-refresher course that can be offered to Procurement Cardholders to reinforce the need for Request for Adjustments to be made if the expenditure does not fall within the correct account used as the default when processing the payment to the credit card vendor.

## **Objective 2**

*Determine if appropriate documentation is submitted and retained to support that expenditures are reasonable and a necessary use of City funds.*

### **Finding**

Appropriate documentation is retained to support that expenditures are reasonable and a necessary use of City funds.

**Criteria:** Policies should define the appropriate use of public funds for business meals and same day training. Procedures should be sufficient to ensure that appropriate documentation is maintained to evidence the business need for the expenditure, approvals needed, if any, and the individuals attending the meeting or training function.

Expenditures should be supported with sufficient documentation so that a prudent, reasonable person would be able to determine that the expenditure was reasonable and a necessary use of City funds.

**Condition:** The Financial Services Department developed written policies and procedures to govern the expenditure of City funds for business meals and same day training. The City Manager approved the guidelines and the information has been memorialized in writing within ARs 205 and 209.

Procedures require the submittal of documentation, management approval (one level above the requestor) for local training, and place appropriate restrictions on account usage. Use of funds to purchase alcoholic beverages is prohibited and guidelines are set regarding the amount to be expended, per person, for meals.

Both ARs require the submittal of documentation as a condition of payment. If the purchase is made with a Procurement Card, and sufficient documentation is not supported with the Transaction Log, a Technician in Purchasing contacts the cardholder and requests additional documentation to support the expenditure. For requests made on a Check Requisition, Accounts Payable (A/P) will reject the transaction if sufficient documentation is not submitted.

Of the 100 transactions reviewed (130 separate events), all had sufficient documentation to allow a determination that the expenditure was approved, reasonable, and a necessary use of funds.

We did note, however, that there is no requirement for the preparation of an Employee Request for Training and/or Travel Form, if the training is obtained locally. As a result, there is no consistent mechanism that can be used to capture the approval that is required under the AR.

We also noted that there is a potential for discrepancies within the per person amount expended for business meals. While the current AR restricts the amount per person to \$8 (exclusive of tips, etc.), Risk Management is using a higher amount as the guideline for Safety Incentive Program lunches.

**Recommendations:**

- Modify AR 209 to require submittal of an Employee Training and/or Travel Request Form to provide consistent documentation for expenditures and provide written evidence of management approval.
- Modify the instructions for the Safety Incentive Program to bring the per person amount in line with the limits set in the AR or modify the AR to increase the per person limit to the amount set for the Safety Incentive Program.

### **Objective 3**

*Determine if expenditures comply with criteria set out in ARs governing the use of City funds for business meals and same day training.*

### **Finding**

Expenditures comply with the criteria set out in the ARs governing the use of City funds for business meals and same day training but restrictions on use of funds for routine or re-occurring staff functions need to be enforced.

**Criteria:** Policies should provide appropriate criteria for employees as to who, when, where, how, and what is permitted when utilizing City funds for business meals or same day training.

**Condition:** AR 205 states that food and beverages are not to be provided during business meetings unless: 1) the City is sponsoring an event or acting as host for a meeting, citizen board, commission, committee, legislature, or business client or 2) City business cannot otherwise be conducted during regularly scheduled work shifts. Additionally, expenditures for food and beverage at any regularly scheduled or recurring staff meeting is prohibited. Also, under no circumstances should alcoholic beverages be purchased.

In situations where food and beverages are required, a maximum of \$8 per person, excluding tax, delivery, and tip can be expensed. Upper level management has the discretion to exceed the \$8 limit, if necessary, in the course of doing City business or discussing related issues.

AR 209 provides guidelines in using public funds for employees obtaining job-related certifications, attending conferences, or participating in off-site training that will mutually benefit the City and employee. The policy states that City time and expense can be used if the professional conference or training is required: 1) to acquire or maintain a certification necessary to perform the employee's job or 2) by the employee's manager to improve or enhance the employee's job competencies necessary to perform the employee's job.



Out of 59 specific events related to the purchase of meals, beverages, or food, there were:

- Eight situations that appeared to be routine or re-occurring staff functions. These included:
  - Planning and Development Weekly Director's Meeting (\$59.27).
  - Quarterly Management Meeting for the Police Department (\$2,490).
  - Promotional Process Assessors Meeting (\$58.03).
  - DMB Core Team Lunch Meeting (\$69.43).
  - Stack 40 Meetings (\$131.24 and \$18.07).
  - Process Improvement Team Meeting (\$12).
  - Wireless Messaging Meeting (\$27.84).
- Two situations in which meetings occurred, off site at a restaurant, and appropriate documentation was not submitted to indicate the purpose of the meeting or the attendees. In addition, detailed receipts were not submitted (\$21.17 and \$20.79).
- Six situations in which food was provided at meetings but detailed receipts were not submitted.
  - Four for Boards and Commission Meetings. Two of these events stated that food was also provided for staff:
    - Planning Commission Meeting and staff (\$136.16).
    - Development Review Board Meeting and staff (\$133.36).
    - Housing Board Meeting (\$30.16 and \$13.91).
    - Neighborhood Enhancement Committee Meeting (\$30.16).
  - One in which food was provided for the "Adopt-a-Family" volunteers (\$103.39).
  - One situation in which a meeting occurred, off site at a restaurant, and a detailed receipt was not submitted (\$32.73).

***Recommendation:***

Develop a refresher-training course or other method of delivery that can be used to reinforce the need for detailed receipts to be submitted to support Procurement Card transactions.

## **SCOPE AND METHODOLOGY**

The objective of the Business Meals and Same Day Training Audit was to determine if:

- Controls are sufficient to ensure that expenditures related to business meals and same day training are reflected in the correct account for these expenditures.
- Appropriate documentation is submitted and retained to support the expenditures and that the expenditures are reasonable and a necessary use of City funds.
- Expenditures comply with criteria set out in ARs governing the use of City funds for business meals and same day training.

The scope was limited to expenses for FY 02/03. Audit testing took place January through February 2004.

We reviewed the ARs to determine what policies and procedures related to the use of public funds. We interviewed the Accounting Director, Accounting Manager, Purchasing Manager, and Procurement Card Administrator to gain an understanding of controls and processes in place for business meals and same day training. Request for Adjustments, Check Requisitions, Petty Cash documentation, Purchase Orders, SmartStream transactions, and reconciled Procurement Card transaction documentation were reviewed, when necessary.

To complete the audit, we selected a sample of transactions from account 52245 as well as a sample of Procurement Card transactions from vendors that appeared to fall within the scope of food providers or training opportunities. For transactions posted to the 52245 account, we verified that the expenditure was related to business meals or same day training. For Procurement Card transactions that met the criteria for business meals or training, we verified that the expenditure was properly recorded. We then combined the samples and verified that appropriate documentation was available and that the transaction appeared to fall within the scope of allowable expenditures. As a part of the work, we tracked whether or not an Employee Request for Training and/or Travel Form was submitted to document management approval of the training request.

Gail Crawford and Mary Modelski were the auditors who completed this assignment. Audit work was conducted in accordance with generally accepted government auditing standards as they relate to expanded scope auditing in a local government environment and as required by Article 111, Scottsdale Revised Code, §2-117, *et. seq.*

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## **APPENDIX A**

### **MANAGEMENT RESPONSE**

Management chose to respond by populating the Action Plan. A formal response letter was not created.